

## Commodity Spotlight



### Market Braces for Record U.S. Soybean Crop

**T**his year's soybean acreage is strong evidence that a major goal of the 1996 farm legislation—to increase market orientation—has been achieved. U.S. farmers have more flexibility to plant as many soybeans as they believe may be sold to growing domestic and international markets.

Acreage and crop conditions to date suggest a record 1997 U.S. soybean crop. Soybean marketers will have to turn to growing international as well as domestic markets to sell the expected 1997 bumper crop.

U.S. soybean farmers responded to this spring's strong prices by planting an estimated 70.9 million acres, up 10 percent and the highest in 15 years, according to USDA's June *Acreage* report. This would be the third-largest soybean area planted on record and the first time in history that U.S. planted acreage for soybeans has exceeded wheat area. The bumper crop is expected to pressure 1997/98 U.S. farm prices into the range of \$5.40-\$6.60 per

bushel, down sharply from 1996/97's estimated season average of \$7.38.

Expected record supplies are projected to lift both domestic crush and U.S. soybean exports to record volumes of 1.485 billion and 0.945 billion bushels, respectively. Recent trade agreements that have removed international barriers and opened U.S. export markets should provide a welcome boost. However, sensitivity in some European markets to the importation of new, genetically modified soybeans, and related discussions of product labeling, represent potential hurdles for future U.S. exports.

#### *1996 Farm Act Facilitates Acreage Gains*

Prior to 1996, each farmer participating in the commodity programs had an established crop-specific base acreage for wheat, feed grains, cotton, or rice. Government program payments for most crops were based on a 5-year average of acreage planted or considered planted to program crops. Soybeans were not among the commodities for which farmers received payments.

Farmers were frequently reluctant to risk reducing future deficiency payments by chasing potentially temporary spikes in soybean prices and planting soybeans instead of program crops. Consequently, high cash prices for soybeans did not always provide enough incentive to summon the amount of U.S. acreage needed to satisfy growth in world market demand. Instead, foreign producers were often left with an opportunity to capture these gains. Between 1985 and 1995, combined Brazilian and Argentine soybean production increased 69 percent, compared with U.S. growth of only 4 percent.

Farm legislation in 1990 initiated greater planting flexibility by excluding 15 percent of each producer's base acreage from deficiency payments. Program participants were allowed to plant any field crop on the excluded acreage without sacrificing base acreage and future payment eligibility. The 1996 Farm Act completely eliminated any link between farm payments and the crops grown. Expected relative market returns between crops

has become the major determinant for crop selection.

Farm prices for soybeans climbed above \$8 per bushel this spring, the highest level since the 1988 drought as the market rationed dwindling stocks. Despite a relatively large 1996 harvest, it became apparent early in the year that robust domestic use and exports were drawing down U.S. stocks of soybeans rapidly and driving the price rise. Projected yearend stocks of 125 million bushels for the September-August 1996/97 marketing year would be the smallest inventory in two decades.

Farmers responded to last spring's very attractive price signals by expanding soybean planting, mostly at the expense of corn, wheat, and sorghum acreage. Every state will have more soybean area this year, with the sole exception of Ohio, which held to its 1996 record acreage.

Spring planting conditions for soybeans were nearly ideal this year, unlike the very late start in 1996. Moisture this summer has been favorable, pushing the U.S. average soybean yield forecast to 39.3 bushels per acre, second only to 1994/95's 41.4 and up from last year's 37.6. The combination of high acreage and yields is expected easily to push 1997/98 soybean production beyond the 1994/95 record of 2.517 billion bushels. As of August 12, 1997 production was forecast at a record 2.744 billion bushels. The final output will depend on growing conditions through harvest, which is expected in September and October for most of the crop.

To supplement tight U.S. supplies, the first-ever shipments of soybeans from Brazil began arriving this summer. Larger imports were made possible by a historically wide price differential between U.S. and Brazilian ports. These imports will be a short-lived phenomenon and will likely revert to only 5 million bushels in 1997/98 as record U.S. supplies become available. In fact, both Brazil and Argentina will likely import new-crop U.S. soybeans later this year, crush them, and export the products. By then U.S. soybean prices will be much lower, and domestic supplies available to South American crushers will be very short because of Brazil's prolific summer

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exports and a drought-reduced harvest in Argentina.

The U.S. is not the only country where farmers have responded to strong world soybean prices. The world's second-leading producer of soybeans, Brazil, is also expected to produce a record harvest next year. Attractive soybean prices, an improved farm debt situation, and improvements in transportation infrastructure are encouraging Brazilian farmers to plant more soybeans than ever, including some land never before farmed.

A 1996 policy change eliminated Brazil's system of differential export taxes that had been used to encourage domestic processing. For soybeans, eliminating the tax not only filtered down to producers in the form of higher prices at the farm, but also erased domestic processors' advantage over soybean exporters. As a result, soybean exports from Brazil dramatically increased last spring and summer, more than double the previous year's volume. However, Brazilian crushers have been compelled to operate their facilities at a reduced level this year as foreign buyers have outbid them for domestic supplies.

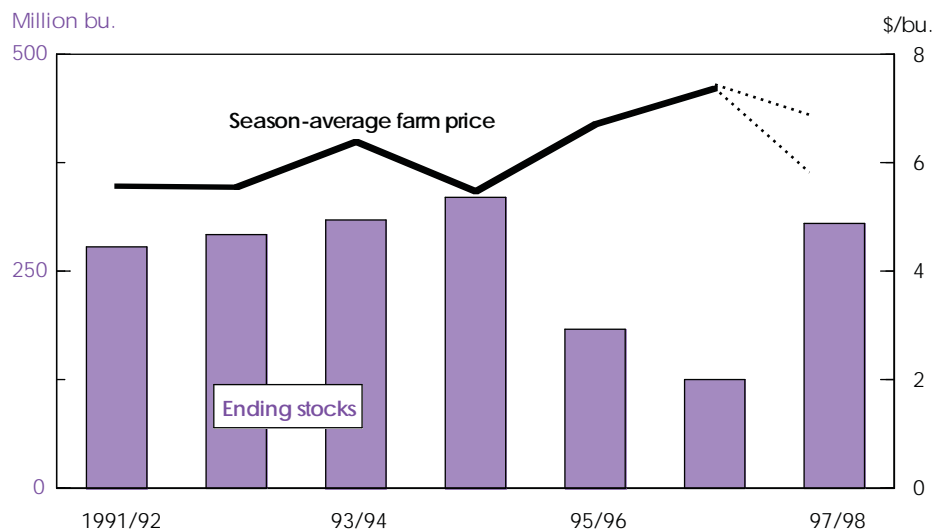
Together, the U.S. and Brazil accounted for 70 percent of global soybean output in 1996/97, with shares of 51 and 19 percent. A larger crop is also projected for the world's third-largest producer, Argentina (9-percent world share in 1996/97), on the strength of expanded area and improved yields.

### Trade Pacts Boost Growth In Key U.S. Markets

Recent trade pacts are expected to increase U.S. exports to two key markets—the European Union (EU) and Mexico—while growing demand is improving prospects in China.

The *European Union* is the world's largest import market for soybeans and soybean meal. In 1995/96, U.S. soybean exports to the EU were 7.8 million metric tons (valued at \$2.1 billion), about one-third of total U.S. soybean trade. U.S. soybean meal exports to the EU totaled 0.9 million tons (nearly \$200 million), about 15 percent of total U.S. soybean meal trade. EU soybean imports in 1997/98 are expected

### Soybean Prices to Dip As Stocks Recover



1996/97 estimated, 1997/98 projected range.

Economic Research Service, USDA

to slip because of record EU oilseed production, although imports of soybean meal should rebound following a mild downturn the past 2 years.

In 1992 the U.S. and EU completed bilateral trade negotiations that produced a common U.S.-EU position—known as the Blair House agreement—with respect to several unresolved agricultural issues in the then-ongoing Uruguay Round of trade negotiations. Under the terms of a side accord to the Blair House agreement, the EU committed to a maximum area for oilseed production with penalties for overplanting.

EU producers are currently very close to their maximum allowed oilseeds area, if not already in excess. Thus, future growth in protein meal demand must be increasingly filled by non-EU sources. Imports of sunflowerseed from the Newly Independent States of the former Soviet Union, and Eastern European countries (which lack adequate processing facilities), have risen in recent years. By processing high-oil-type oilseeds, the EU is self-sufficient in vegetable oil production. However, substantial EU soybean imports from the U.S. and South America are still necessary to obtain the superior protein meal of those exporting regions.

U.S. trade barriers with *Mexico*, one of the world's most rapidly growing soybean customers, have been falling since implementation of the North American Free Trade Agreement (NAFTA). Prior to NAFTA, Mexico had a seasonal tariff of 15 percent on U.S. soybeans. Under the treaty this tariff, as well as duties on soybean meal and oil, will be phased out over 10 years, giving the U.S. a unique advantage in supplying this expanding market. Improvements in Mexico's rail links at the border have also expedited oilseed trade between the two countries.

Since 1994 implementation of NAFTA, the value of annual U.S. exports of soybeans to Mexico has increased 50 percent. However, the increase was not all due to NAFTA implementation. The initial years of NAFTA coincided with significant changes in the domestic agricultural policies of the U.S., Canada, and Mexico and in the global trade policy environment. In addition, the peso crisis and subsequent recession in Mexico seriously disrupted trade in 1995, overwhelming the effects of the early tariff reductions under NAFTA. Further, adverse weather conditions, which affected Mexican grain and cattle production, influenced trade in several agricultural commodities in North American markets.

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ERS analysis which isolated the economic impacts of NAFTA from other developments estimated that U.S. soybean exports to Mexico were 2-5 percent higher in 1996 than they would have been without the reduction in trade barriers under NAFTA.

For 1997/98, import *volume* is forecast nearly 30 percent above 5 years earlier. Cumulative 1997 Mexican soybean imports from the U.S. to date are 16 percent above a year ago. Mexico's rapidly expanding crushing capacity is supplied almost entirely by U.S. exports. Very little soybean production now exists in Mexico following the dramatic rise in less costly imports from the U.S. and substantial reforms in Mexican farm policy. On the other hand, Mexican soybean oil imports have been cut because of the greater oil supplies being produced by domestic processors.

China was traditionally a net exporter of soybeans and soybean meal, mainly supplying other Asian markets. In the 1993/94 marketing year, China exported 1.1 million metric tons of soybeans and 1.05 million tons of soybean meal. However, a rapidly expanding domestic market is cutting into exportable supplies. Only 200,000 tons of soybeans and 30,000 tons of soybean meal are projected to be exported from China in 1997/98.

With greater harvested area projected for 1997/98, China's soybean output is forecast up 7 percent. Even with a larger domestic output, booming consumption has transformed China into a major importer. While China's per capita consumption of meat and cooking oils is still among the world's lowest, rising incomes have led to greater spending by Chinese consumers in recent years to improve diets. Since 1991, China's total soybean consumption has nearly doubled. This has required imports of soybeans and soybean products to supplement domestic supplies.

China's domestic soybean production has lagged behind demand because of inefficient price and marketing systems and outdated technology. Moreover, China's agricultural policy typically skews producer prices in favor of rice, wheat, corn, and cotton production, making it difficult to expand soybean area. The government

procurement price paid to Chinese soybean farmers by local grain bureaus is usually lower than the world market price. And internal taxes between provinces discourage movement from major northern producing regions to the main consumption centers in the south, making it more practical for these southern areas to import from abroad.

China's imports of soybeans and soybean meal have catapulted from only 160,000 and 50,000 tons in 1994/95 to projected levels of 2.7 and 3.35 million tons in 1997/98. Just 2 years ago, China imported only 3 percent of the soybean volume of Japan, the world's largest soybean importing country. In 1997/98, China's soybean imports are projected to be more than half the volume of Japan's, making China the world's fourth-largest importing country. Dryness in some regions has already cut into current production and could push China's soybean and soybean product imports even higher.

### *Transgenic Soybeans Face Trade Hurdles*

The development of genetically modified soybeans has the potential to reduce U.S. farmers' production costs. But these commodities face a number of hurdles in the trade arena. Upon approval in 1995, the

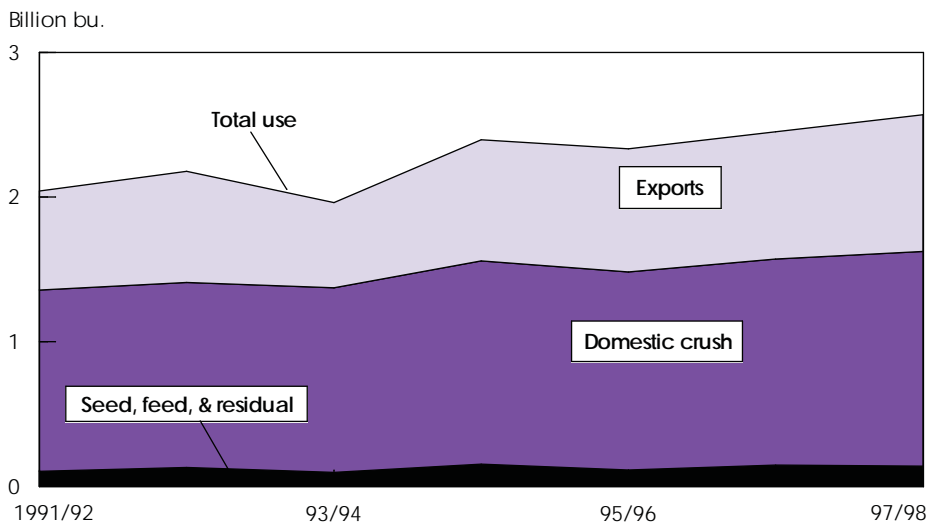
first significant U.S. commercial production of transgenic soybeans—genetically modified to be herbicide resistant—began last year, with more than 1 million acres harvested. Industry estimates are that 12-15 percent of the 1997/98 U.S. crop will be from transgenic soybean seed and could be double that level in 1997/98.

One advantage many farmers may gain by producing such varieties is the cost savings from fewer herbicide applications—reduced by one-third—without yield loss. Although herbicide-resistant seed costs are higher than standard varieties, the cost savings can be substantial for farmers with significant weed problems. Other genetically modified soybeans that may be commercially produced within a few years would enhance the use properties and fat composition of the oil, although their high value would segregate them from conventional uses in the market.

Producers in Argentina are also planting the herbicide-resistant soybean, as seed adaptable for these areas becomes available. Argentine producers may harvest an estimated 3.25 million acres in 1998.

Prior to 1997, Brazil had no plant variety protection legislation that would safeguard the patent rights of seed developers. This prevented seed research and devel-

### Soybean Crush and Exports to Reach Record-High Levels



1996/97 estimated, 1997/98 projected.

Economic Research Service, USDA

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opment within Brazil, including bio-engineered seeds. Now, with such legislation in place, experimental production of transgenic soybeans is occurring, but commercial output awaits government approval.

EU protein meal needs declined in 1996 when meat consumption dropped because of the bovine spongiform encephalopathy or "mad cow" disease crisis that devastated British beef production (AO June 1996). At the same time, this food scare heightened the sensitivity of EU countries toward genetically modified organisms (GMO's) in their food supplies, including the herbicide-resistant soybeans.

In 1996, the EU approved imports of these soybeans, concluding that processing them into oil and meal destroyed any novel genetic material. However, given the area constraints on EU oilseed production, and the increasing amounts of U.S.-produced GMO soybean imports, some Europeans have expressed the desire for product labeling of GMO and non-GMO soybean content. There is no easy method to visually or chemically distinguish a GMO variety from conventional varieties.

In late July, the European Commission agreed to guidelines on drafting legislation for product labeling required for GMO content under its Novel Foods legislation, with final plans due late this year. For products manufactured without

GMO's, no labels would be required, but certified non-GMO product could voluntarily label (e.g., "this product does not contain..."). Mandatory labeling (e.g., "this product contains...") would apply to products known and verified to consist of GMO material. For products possibly containing material of GMO origin but with no evidence available, a mandatory label (e.g., "this product may contain...") would be used.

If the final directives apply to all food or feed products produced from GMO's, such labeling could require GMO segregation beginning at the farm level. Requirements for separate storage space would be imposed on commercial handlers at great expense. Rail cars, barges, port loading facilities, and ocean freighters would have to be dedicated to GMO or non-GMO commodities. The costs of complying with such a system could seriously undermine foreign import demand for U.S. soybeans.

In 1996, Japan also approved imports of GMO soybeans. Large amounts of soybeans are used directly for food in Japan such as tofu. Japanese authorities are now facing significant popular support for regulation of transgenic food products. The well-publicized illnesses caused by contamination of some food with *e. coli* bacteria cast doubt on Japan's food safety system and still lingers in the memories of many consumers. Interest in organic soybeans by Japanese consumers has

increased, although these are still very expensive and only a small component of the current market.

Under the rules of the World Trade Organization (WTO), required labeling of commodities as having GMO content could be construed as a technical barrier to trade. If the GMO's are scientifically determined to be as safe to consume as conventional varieties, the justification for labeling would not be apparent. But international consensus on this point has not yet been reached.

The U.S. Food and Drug Administration has cleared these GMO's as posing no threat to human health. Tests by USDA's Animal and Plant Health Inspection Service concluded that this soybean variety posed no risk to the natural environment. Although some countries have determined transgenic soybeans are safe, public perceptions of biotechnology have pressured other governments to ban domestic production, obtain imports from alternate origins, or require labeling. As a result, the treatment of GMO's in international trade will likely remain a subject of discussion for some time to come.

Mark Ash (202) 219-0712  
mash@econ.ag.gov **AO**

## Watch for . . .

- \* *Outlook for the U.S. corn industry*
- \* *Update on the Conservation Reserve Program*
- \* *International trade in cattle and beef*
- \* *Farm labor issues*

**. . . in upcoming issues of Agricultural Outlook**



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Texas Department of Agriculture

### High Prices Pull Up U.S. Rice Acreage

U.S. farmers planted over 3 million acres of rice in 1997, up nearly 9 percent from 1996 and more than 6 percent higher than producers' planting intentions reported in March. Nearly all of the area increase was for long grain rice, grown almost exclusively in the South. The increased plantings—indicated in USDA's June *Acreage* report—were due to relatively high rice prices at planting compared with those for alternative crops grown in the South—primarily soybeans.

When the 1996 Farm Act was signed in April 1996, many industry analysts expected rice acreage to decline for a few years before stabilizing, then modestly increase to pre-1996 Farm Act levels. Expectations of declining rice area arose from provisions in the act that terminated deficiency payments and supply management programs, ending the connection between income support measures and historic production of a particular crop and giving producers much greater planting flexibility.

In fact, planted area did drop nearly 10 percent in 1996. Farmers in the South took advantage of the opportunity to

switch some rice area to soybeans and in some cases to corn, as prices for these crops were very high at planting in 1996. In many of the southern rice planting areas, soybeans are regularly grown in 1- and 2-year rotations with rice to improve yields. Rice area would likely have declined even more in 1996 had rice prices not been high as well.

During the spring planting period, no year-to-year decrease in the season-average rice price was projected for the 1997/98 marketing year (August-July). But season-average farm prices for both soybeans and corn were expected to drop. At the time, both new-crop futures and monthly rice prices exceeded \$10 per cwt, higher than any season-average price after 1980/81.

The 1997 U.S. rice crop is estimated at 182 million cwt, up over 6 percent from last year and the first increase since 1994's record 198-million-cwt crop. Long grain rice accounts for this year's production increase, estimated at 127.3 million cwt—12 percent above 1996. Long grain rice acreage posted an increase of over 15 percent from 1996—to 2.28 million acres—the result of stronger prices for long grain relative to other rice types.

In 1996/97, strong domestic and world demand for high-quality long grain rice, coupled with tightening U.S. long grain supplies, raised the price of southern long grain above prices for medium grain. Medium grain crops are estimated at 53.2 million cwt, down 4 percent from last year—the result of a 20-percent drop in southern medium grain plantings.

#### *Output Up For Southern Rice*

The projected gain in southern rice output for 1997 is due entirely to the increase in planted area, offsetting an expected decline in average southern yield this year to 5,546 pounds per acre, down from last year's record of 5,851. Wet weather delayed plantings along the Texas gulf coast, making the crop more susceptible to damage from weeds, diseases, and pests, as well as increasing the potential for heat stress later in the season. Cool spring weather also delayed emergence of the crop.

In addition, the delayed planting prevented most Texas producers from growing a second, "ratoon," crop by reflooding the stubble of the first. About 40 percent of Texas producers typically harvest a ratoon crop, accounting for about 10 percent of the state's total output. Cold weather this spring also delayed crop emergence in the Delta, postponing field flooding and causing many farmers to rely on herbicides to control weeds until the flood was established.

Rice area is up in five of the six rice producing states, with the greatest increases appearing in the Mississippi Delta region. Arkansas, which produces over 40 percent of the U.S. crop, accounts for 69 percent of the net gain in U.S. rice area this year. All of the increase was for long grain, the bulk of it in the Mississippi Delta region of the state, according to state extension specialists. Other states in the Delta rice-growing region reported increased acreage as well—Mississippi and Missouri expanded long grain plantings 29 and 8 percent, and state extension specialists believe northeast Louisiana plantings are up.

Texas is the only state to report declining rice area for 1997. Long grain area—which accounts for over 95 percent of the state's crop—is down 35,000 acres, a 12-percent decline, while medium grain area fell 5,000 acres, a 50-percent decline. The recent farm program changes account for some of this loss. Because of higher costs, Texas producers had relied more on farm program payments to make rice farming profitable. With the end of such programs in 1996, many Texas landowners have abandoned rice farming and moved acreage they had previously maintained to meet minimum planting requirements for rice program benefits, into other uses.

Texas rice acreage, however, had been declining steadily in recent years and is down nearly 100,000 acres from the early 1990's and nearly 300,000 since 1980/81. Texas producers face several production disadvantages compared with other southern states. First, the state is a high-cost rice producer, especially in expenses for water, which must be pumped from much deeper wells than in the Delta, and for which rice farmers compete with urban areas like Houston. Second, considerable

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seed is lost to migrating blackbirds. Finally, the climate is too hot and moist for many farmers to produce an economically viable rotation crop. Many producers in Texas leave a portion of their land idle, contributing nothing to covering fixed expenses during the years when their rice land is rested.

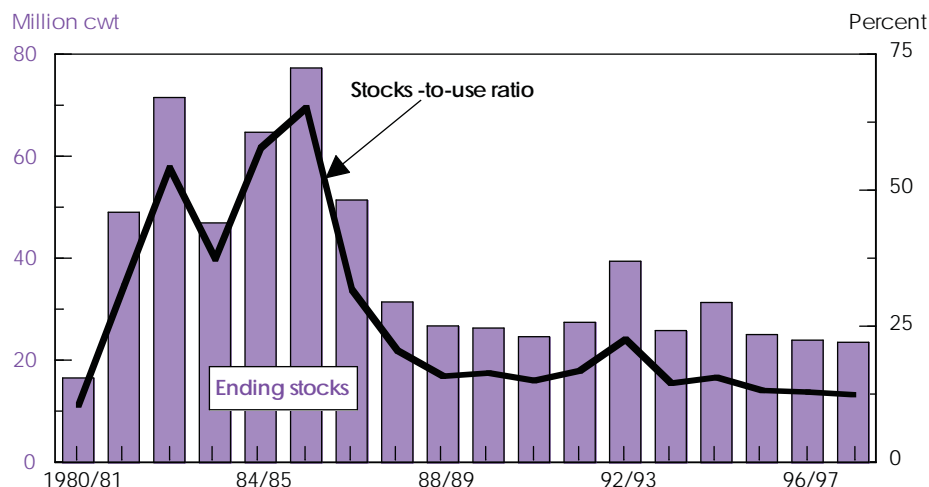
Yields in California, in contrast to the South, are expected to exceed 1996 due to very favorable weather throughout the growing season. The average yield in California is estimated at 8,200 pounds per acre, up over 9 percent from 1996. California producers achieve average yields 40 percent higher than in the South. This is due partly to the cooler, drier climate, which typically has less pest and disease problems and supports higher yielding varieties. The California "japonica"-type rice is viewed by most international buyers as superior to southern medium grain rice for direct food use and typically sells at a premium. In fact, the two largest foreign buyers of U.S. medium grain rice—Japan and Turkey—generally purchase only California rice.

California, which grows primarily medium grain rice and accounts for the bulk of the U.S. medium grain crop, reported rice plantings of 515,000 acres, up 13,000 from 1996, including a 7,000-acre increase for medium grain. An additional 5,000 acres of the increase was in short grain plantings, accounting for the entire 25-percent increase in U.S. short grain acreage. Short grain rice, grown also in Arkansas, accounts for less than 1 percent of U.S. rice area. California short grain acreage has increased steadily over the past 2 years—from 10,000 acres in 1995 to 13,000 in 1996 and 18,000 for 1997.

### Rice Prices Show Steady Strength

The 1997/98 season-average farm price for rough—unhusked—rice is projected to be \$9.25 to \$10.25 per cwt, with the midpoint 15 cents below last season's \$9.90. The 1996/97 season-average price was the highest since 1980/81, and this year's projection would be the second highest. Since 1980/81, only the 1995/96 season-average price exceeded \$9 per cwt.

### U.S. Rice Stocks Drop to Lowest Level Since 1980/81



Rough (unhusked) basis. August-July marketing year. 1996/97 estimated, 1997/98 projected.

Economic Research Service, USDA

U.S. rough rice typically traded at \$6-\$9 per cwt from 1982/83 through 1994/95, although in the mid-1980's, when exports were stagnant or declining, some monthly prices dropped to just \$4-\$5 per cwt, and the 1986/87 season-average farm price dropped to just \$3.75 per cwt. U.S. farm-level monthly-average prices started to climb in the second half of 1995, in response to continued growth in U.S. rice consumption, a smaller U.S. crop, and increased world demand for high-quality rice imports. Since November 1995, U.S. farm prices have exceeded \$9 per cwt. Monthly rice prices continued to rise during 1996/97 and have averaged over \$10 per cwt since January 1997.

This spring's strong U.S. rice prices were supported by expectations of extremely tight domestic supplies, especially for long grain rice. The 1996/97 marketing year ended on July 31 with total rice stocks estimated at 23.9 million cwt and a stocks-to-use ratio of 13 percent, both down slightly from the previous year's already low values. The 1996/97 stocks and stocks-to-use ratio were the lowest since 1980/81, a year when the season-average farm price for rice was \$12.80 per cwt.

For long grain rice—which accounts for nearly 70 percent of U.S. rice production—ending stocks in 1996/97 were only

9.1 million cwt, yielding a stocks-to-use ratio of 7.4 percent. In addition, the delayed planting this year in Texas—typically the first state to harvest rice—meant that the 1997 harvest began later than normal, stretching last year's stocks further and adding to the already tight long grain supply situation. Long grain stocks and stocks-to-use ratio had declined each year since 1993/94.

The medium grain situation in 1996/97 was less tight, with ending stocks estimated at 14.2 million cwt and the stocks-to-use ratio at 24 percent, although both were down from a year earlier. An 11-percent increase in production in 1996, with only a very small increase in exports in 1996/97, account for the relatively abundant medium grain supply situation.

For 1997/98, total rice ending stocks are projected to be 24 million cwt, yielding a stocks-to-use ratio of just 12.5 percent, down from 13 percent for 1996/97. The stocks-to-use ratio for 1997/98 would be the lowest since 1980/81, with 1996/97's ratio ranking second.

The larger 1997 rice crop is projected to raise long grain ending stocks in 1997/98 to 12.6 million cwt, increasing the stocks-to-use ratio to 9.5 percent. But even with these increases, the tight supply situation

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will keep long grain prices strong during the 1997/98 marketing year.

For medium/short grain rice, a smaller Delta crop and essentially steady demand will pull ending stocks down 10.8 million cwt in 1997/98, lowering the stocks-to-use ratio to 18 percent.

### World Rice Trade Stronger Since 1995

A contributing factor in strong U.S. rice prices has been that world trade increased to a record 21 million tons in 1995 and has remained at an elevated level since then. From 1980/81 through 1990/91, world rice trade had accounted for under 4 percent of total use and never reached 14 million tons. Since 1995, trade has accounted for almost 5 percent of total use.

Several factors explain the higher level of world rice trade in recent years. First, strong income growth in much of Asia has led to greater demand for better quality rice by higher income urban consumers. Second, a reduction in trade barriers has opened some markets to rice trade—most importantly the partial opening of the Japanese and South Korean markets.

Japan imports almost exclusively high-quality japonica-type rice, with U.S. growers accounting for nearly half of these sales. Korea has thus far turned to India and China for its imports.

Finally, a faster rate of growth in world consumption than in production in recent years has created greater demand for imported rice. This has been particularly true for Latin America. Since 1993, Brazil has been one of the world's largest importers, typically taking over a million tons annually. Argentina and Uruguay have supplied most of Brazil's import needs.

Thailand is the world's largest exporter of rice, and trades a broad array of rice types and qualities. The U.S. exports mostly high-quality rice, primarily to the Western Hemisphere, Western Europe, some higher income Middle Eastern countries, and Japan. U.S. rice exports for 1998 are projected at 2.7 million tons, up 200,000 from 1997. The increase is a result primarily of the greater U.S. supply. U.S. exports were projected to decline along with rice acreage following the termination of deficiency payments in the 1996 Farm Act, but strong demand and larger-than-expected supplies have allowed the U.S. to remain a major exporter.

World rice production is projected to be 379 million tons, just below the 1996/97 record of more than 380 million but 1.2 million tons below projected use. These projections would result in an almost 2-percent drop in ending stocks from a year earlier, yielding a stocks-to-use ratio of 14 percent, down from 14.5 percent in 1996/97. Global trade is projected to reach 18.4 million in 1998, up from 17.9 million this year and the third highest on record. The combination of tighter supplies and greater trade limit the likelihood of any drop in trading prices from the already high levels of 1996/97.

### El Nino Delays Asian Monsoon

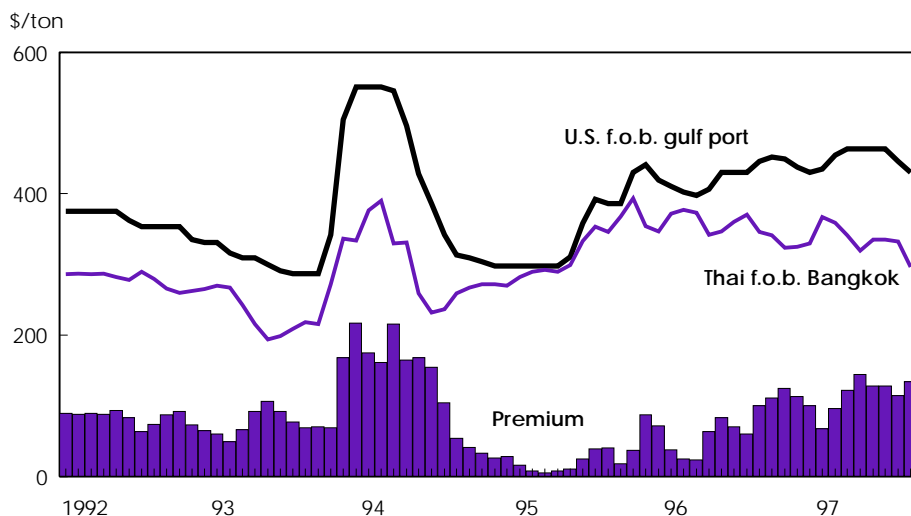
El Nino—a periodic warming of the tropical Pacific Ocean that alters weather patterns in tropical and subtropical regions—is currently affecting weather in parts of Asia, western South America, and Australia and will continue to affect weather into the spring of 1998. While current projections assume normal weather for the remainder of the 1997/98 crop year, analysts will closely monitor El Nino for any potential impacts on crop production.

Thus far, the weather effects of El Nino have included a delayed and erratic monsoon in parts of South and Southeast Asia, which has disrupted normal rainfall patterns in several major rice producing and exporting countries. About 90 percent of the world's rice crop is grown in Asia, with much of the Asian crop dependent on the timing and consistency of the monsoon.

Rice growing areas in Thailand—the world's largest rice exporting country—and in the Philippines and Indonesia—two of the world's largest rice importing countries—are experiencing droughts. Drought has also affected the primary rice growing region of Australia. In contrast, India and Bangladesh have experienced heavy rain and flooding in their main rice growing areas. Parts of western South America have faced torrential rains as well.

Nathan Childs (202) 501-8513  
nchilds@econ.ag.gov **AO**

### U.S. Price Premium Over Trade Competitors Has Widened



Thai 100-percent grade B and U.S. No. 2, 4 percent broken are comparable quality milled long grain rices. Monthly-average of offer-price quotes.

Economic Research Service, USDA